

The whipping government

Vol. 6, No. 170, April 24, 2000

Although a number of respected experts argue that Ukraine can hardly expect to get a better, more pro-reform government that would be prepared to dig what has been piled in the domestic economic Augean stables, the circle of those willing to join the pinch-the-government game has been expanding. An expanded session of the Cabinet of Ministers, held on April 19, 2000 and attended by President Leonid Kuchma and Speaker Ivan Plushch, attracted keen interest: this government had to report about its activity for the first time, and the President was expected to hear the report.

Opening the session, Prime Minister Victor Yushchenko announced that the new Cabinet was summing up initial results of Ukraine's economic and social development. The focus was on the first quarter of 2000, the period rich in specific events, including the President's annual address to the Verkhovna Rada, Ukraine: Towards the XXI Century, adoption of a zero-deficit 2000 state budget, approval of the government's action plan, Reforms for Well-being, successful restructuring of Ukraine's foreign debts, and, on the other hand, growing uncertainty in Ukraine's relations with the IMF.

Although the government's report quoted optimistic figures - GDP growth by 5.6%, and industrial output growth by 9.7% compared to last year - and although no dismissals of the Cabinet officials occurred, it would be an exaggeration to claim that the session was painless enough for the government. President Kuchma strongly criticized the government for insufficiently active and not always well-thought steps in the pursuit of reform, and warned against excessive optimism in evaluation of the economic performance in the first quarter of 2000. Specifically, he noted that the positive trends in Ukraine's economy and related economic indicators had not been linked to deep qualitative changes in the economy and, therefore, could not be viewed as sustainable. The President argued they were rather a result of inertia processes, related to substantial devaluation of hryvnya during the previous period following the Russian crisis and some growth of payment-able demand as a result of partial compensation of wage and pension arrears. (TSN, Studio 1+1, April 19, 2000).

Hence, there was a loud slam of the Cabinet's door, but nobody was left out - for a while, for it appears that some of the Cabinet's officials may be looking for new jobs in a few months. In fact, this wave of criticism is not the first one within the relatively brief period of the Yushchenko government. Yet, only a few months ago, on December 21, 1999, members of the parliament applauded the approval of Victor Yushchenko as the Prime Minister. 296 MPs out of 318, who were present in the assembly hall, including 10 members of the Socialist party endorsed his nomination.

The first strongly critical remarks were addressed to the government a few weeks later, when the 2000 state budget was formed and approved. The government was criticized for major social security cuts and abolishing of benefits, although Yushchenko repeatedly stressed the draft budget was socially oriented. The criticism did not cease after the state budget was adopted on February 17, 2000, this time focusing on the failure to comply with the budget's target indicators.

The next wave of criticism concerned the government's program of action, submitted to the parliament for approval on March 13, 2000, as Reforms for Well-being. Although it was explicitly stated that the draft had been based on the Constitution of Ukraine and the President's recent annual address to the parliament, Ukraine: Towards the XXI Century. Strategy of Economic and Social Development for 2000-2004, it failed to secure eager attention and appreciation of law-makers. Some of them argued they saw neither reforms nor well-being in the proposed draft, but neutral observers noted that negative comments on the government's program were motivated by unsatisfied ambitions of political forces that had been left out when the Cabinet had been formed. The exchange of critical remarks concerning the draft between government officials and law-makers, naturally, did not make the former happy.

Thus, Minister of Economy Serhiy Tihipko put it bluntly: if the Verkhovna Rada did not approve the government's program, it would be equal to the verdict of no-confidence in the prime minister and the government and would push them to resign (Den, March 11, 2000). The reaction was First Vice Speaker Victor Medvedchuk's uncompromising statement that the parliament will not be transformed into a structure that stamps documents the government needs (Kievskie Vedomosti, March 14, 2000). The government's program of action made it through the parliament and was approved on April 6, 2000 by 261 votes, but the fact could hardly be viewed as the government's victory. Although the program was approved in general, MPs introduced a number of conditions for cooperation and shared responsibility with the government for the economic situation in the country, and insisted that the government made quarterly reports to the parliament about the implementation process.

Another potential risk for the government's existence at the present time and in the present composition is the so far futile hope that Victor Yushchenko would be able to negotiate successfully with the IMF to ensure that payments within the EFF loan, suspended in September 1999, are resumed. The situation became increasingly tense after the Financial Times published materials accusing the National Bank of Ukraine of misuse of the IMF loans. The materials were quoted at length and commented in a variety of ways by the Ukrainian media. Finally, it turned out that the IMF loans could be resumed only after an international audit performed on the NBU was completed, i.e., not before June. The fact that Ukraine would have to find a way to struggle without the IMF loans - and, possibly, other loans as well - put additional pressure on the state's ailing finance. Ukraine's international image, especially in the Western world, also suffered serious damage.

In the eastern direction, there is an acute problem of Ukraine's growing gas debt to Russia. The recent session, so unpleasant for the government, evidently went under fresh impression of Russian President Putin's visit to Ukraine a few days earlier. As the media described it, Leonid Kuchma's tirade, full of sarcasm, that from now on making the gas balance for Ukraine and Russia will be the two presidents' personal business, was obviously targeted at Vice Prime Minister for the fuel and energy complex, former president of the UESU [United Energy Systems of Ukraine] corporation Yulia Tymoshenko, who had failed to secure relevant payments by the subordinate agencies (Den, April 19, 2000). The critical remarks referred Mrs. Tymoshenko's earlier unsuccessful negotiations with the Russian Gazprom leadership in January 2000, after which she had announced an exorbitant amount of Ukraine's gas debt: about US\$2 billion. Later on Victor Yushchenko announced that the quoted figure was unverified, and included commercial debts (Fakty i Kommentarii, 21 January 2000). Although the debt was restructured, the problem of payment remains.

At the April 19 session of the Cabinet, the President aimed much of its hardy criticism at Yulia Tymoshenko. Although Mrs. Tymoshenko argued in her speech that the reforms she had initiated in the fuel and energy complex had already produced positive results, and that the measures taken had allowed to improve collection of payments for gas and electricity in March, the problem was not cured. Since January 2000, the total gas debt had grown by almost UAH 2.5 billion, and had reached UAH 7.9 billion by April 1, 2000. The energy debt had increased by UAH 1.5 billion and had reached UAH 8 billion by April 1. Commenting on the facts of extremely unsatisfactory performance of the fuel and energy complex, Leonid Kuchma announced he did not understand the optimism demonstrated by Vice Prime Minister Tymoshenko. The situation has come to the critical edge, the President argued and added that it had been practically by magic that Ukraine's common energy system had not been destroyed (Den, April 19, 2000).

Yet, Yulia Tymoshenko's resignation, predicted by many observers and decision-makers, did not occur that time. Leonid Kuchma authorized Prime Minister Yushchenko to decide whether there was a need to keep the position of the fuel and energy Vice Prime Minister. I agreed to the Prime Minister's proposal to introduce a position of a vice prime minister for fuel and energy policy, taking into account the need for a complex approach to that sphere. Today I have every reason to conclude [that] we have not raised the energy [branch] but simultaneously lost economic reforms, for in fact [we] sacrificed the position of a vice premier who was specifically dealing with the problem of economic reform in Ukraine, he said (UT-1, UTN-Panorama, April 19, 2000). Leonid Kuchma's statement can be interpreted as a direct hint to the Prime Minister. About a week before Leonid Kuchma publicly stated: I am not an advocate of having the President approve, at the Cabinet's session, specific decisions on these or those staff changes, but added that if the President suggests something, the government should consider that. When asked if he was going to propose such changes, Leonid Kuchma answered simply we'll live and see (Ukraina Moloda, April 20, 2000).

Under the impression of the wave of criticism received at the Cabinet's session, Victor Yushchenko asked the President to accept his resignation (Zerkalo Nedeli, April 22-28, 2000) but Leonid Kuchma rejected it. However, it appears that a real staff shake-up in the government may occur in some time. Although the parliament cannot initiate resignation of the government within twelve months after it has approved the government's program of action, there is nothing that would prevent the President from doing so. While in March the President definitely argued that Yushchenko's resignation from the position of the head of government was out of the question, that the government received the whole load of global problems that must be solved without delay, and explained shortcomings in the government's performance as a result of the team's young age (Kievskie Vedomosti, March 11, 2000), in April he was more critical when evaluating the Cabinet's and its selected officials' performance. The President warned against too much enthusiasm about economic indicators received in the first quarter of 2000, as well as against acting from scratch, without taking into account the previous governments' experience, and stressed that he was worried about the fact that much of government's decision-making was based on intuition.

Still more criticism was addressed to the government's perceived focus on public events and PR actions that, according to Kuchma, are becoming dogged (Studio 1+1, TSN, April 19, 2000). Possibly, the comment was addressed to a number of hot lines between government officials and ordinary Ukrainians, and the public reception office that received multiple complains of Ukrainians about problems they face in their everyday lives. Observers have regarded these efforts of the government as clearly image-making actions expected to raise Ukrainians' positive feelings about the government and individual members of the Cabinet. Yet, the criticism of image-making actions resembled something. On May 27, 1996, the press service of the President of Ukraine disseminated a statement that Prime Minister Yevhen Marchuk did not ensure, as the situation demanded, effective and sustainable operation of the government and, lately, instead of daily routine on organizing its performance [he] focused his efforts on creating his own political image. Much of the criticism voiced by the President in 1996 can be easily applied to the present-day situation: low effectiveness of the Cabinet of Ministers, the government's documents are not being implemented, many of them are declarative in nature, the government does not forecast the development of economic processes but rather follows them, adopting decisions based on their consequences, there has been no effective interaction with the Verkhovna Rada in working on urgent bills. Yet, the analogy can hardly be regarded as an accurate one: first, neither the press nor the public witnessed impressive image-making events organized Prime Minister Yevhen Marchuk, and second, Yevhen Marchuk was prepared for radical action and was not afraid of resignation.

Nowadays, the ranks of experts prepared to take the government's mistakes as a problem of growth. Although permanent representative of the President of Ukraine in the parliament Roman Bezsmertnyi argues that it is too early to make a radical evaluation of the government, given the fact that some of its members have risen to such high positions for the first time... It would be very good if the current government managed to achieve the level of becoming a real one team in at least half a year (Den, April 20, 2000), there is a logical question whether this country has any more time to spend on waiting and hoping.

The above suggests a number of possible conclusions:

1. President Kuchma have deliberately chosen the tactics of not firing any of the government's members without Victor Yushchenko's agreement and a formal appeal. Earlier on, he announced he was prepared to refrain from dismissing any of members of the Cabinet, i.e., showed unwillingness to provoke any of the members of the Cabinet to join anti-Kuchma opposition.
2. Three and a half months are a long enough term for the government to start unpopular but necessary pro-market decisions. Instead there is a budget, pushed with great hardships through the government, fulfillment of which may be problematic due to re-introduction of earlier abolished benefits. The initial months of large-scale privatization brought the revenues that are below the expected ones. There is also the government's program of action, adopted too recently to have produced results. Yet, the President demands on the government to show substantial progress either in the pursuit of the agrarian reform, or the large-scale privatization, that would be significant enough to be considered as a breakthrough in the economic reform process. It looks like his patience is about to end.
3. Meanwhile, Leonid Kuchma hardly has any candidate at the moment that would be better than Victor Yushchenko, still prepared to perform the President's will. Even if Yushchenko submits his resignation, the President may choose not to accept it for an indefinitely long period of time, and the Prime Minister will have to continue doing his job as usually.
4. Since no vacancies have been opened in the government to be filled by representatives of competing groups of interest willing to boost their influence, one may assume that currently the President sees reality in a way somewhat different from the way it is seen by power-brokers that are eager to reform the Cabinet. Hence, the new President demonstrates independence and readiness to act in accordance with his interests that may not necessarily be shared by his circle. The fight between oligarchs allows the President to prevent gaining too much strength by any of the teams and keep the situation under control from above.
5. The purpose of the public criticism of the government is to exert pressure on Victor Yushchenko to stimulate him to act and carry the whole burden of the unpopular reforms.
6. The President is annoyed not so much with the Cabinet members' public image-making activism (though it would be incorrect to dismiss the possibility that Yushchenko's rivals interpret it to the President as efforts to gain political score) but rather by the fact that it consumes a major portion of the government's time and efforts. Furthermore, the media - particularly the ones controlled by competitors for influence, begin to be increasingly skeptical about the Cabinet's PR efforts.
7. There are a number of real challenges that need to be addressed by the government. One of them is the issue of distribution of land in the Crimea, likely to become particularly acute in mid-May when Crimean Tatars will mourn the anniversary of displacement from their historic homeland by Stalin in

1944. Notwithstanding the importance of the issue of giving Crimean Tatars access to participation in land privatization, and potential challenges that may be created by the failure to address it adequately, there is no government official who would be directly responsible for dealing with it.

8. According to sources in the parliament, practically every draft bill submitted by the government may result in increase of the taxation pressure that in its turn may result in increasing shadowization of economic activity and the growth in numbers of those who are dissatisfied with the reforms . In order to prevent stronger criticism of the government Victor Yushchenko should do a number of practical things: ensure the promptest possible submission of key pro-reform draft bills, primarily the Budget Code, the Taxation Code and the Customs Code, so that the new 2001 budget - expected to be submitted to the parliament by September 15 - could be drafted on a new basis. Other steps could be increasing consistence in the pursuit of the administrative reform, implementation of a real agrarian reform instead of liquidation of collective farms on paper , and developing the large-scale privatization. Specifically, it is important to actualize the Prime Minister's declared commitment to promote privatization of a number of key Ukrainian enterprises.